

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

Financial Statements

**Montcalm Center
for Behavioral Health**

September 30, 2007



Montcalm Center for Behavioral Health
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INDEPENDENT AUDITOR'S REPORT

Montcalm Center for Behavioral Health
Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Montcalm Center for Behavioral Health (the Authority), as of and for the year ended September 30, 2007, which collectively comprise Montcalm Center for Behavioral Health's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Montcalm Center for Behavioral Health's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Montcalm Center for Behavioral Health, as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 18, 2008 on our consideration of Montcalm Center for Behavioral Health's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Montcalm Center for Behavioral Health's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.
Certified Public Accountants

March 18, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS



Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2007

This section of the Montcalm Center for Behavioral Health (the Authority) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2007. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

For fiscal year 2007, the source of Medicaid revenue continued to be the PIHP. In fiscal year 2003 the Michigan Department of Community Health (MDCH) began contracting for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHP's) in regional geographic areas. The Authority affiliated with Bay-Arenac Behavioral Health Authority as the designated PIHP for a region consisting of Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority subcontracts for Medicaid funding through the PIHP, rather than directly with the state. State General Fund revenue and other grants and earned contracts continue to be sourced directly from the state, in the Authority's capacity as a Community Mental Health Services Program (CMHP).

Also, as of October 1, 2002 the beginning of fiscal year 2003, the Authority adopted the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). This Statement established new financial reporting requirements for state and local governmental units.

FINANCIAL HIGHLIGHTS

- Operating results for fiscal year 2007 show a deficit of \$325 thousand that was funded from the accumulated fund balance. The major source of this deficit was insufficient State General Fund revenue to meet the cost of reimbursable services provided to the population of Montcalm County. The State position was that the Authority had accumulated fund balance in previous years from an excess of Adult Basic Waiver capitation over related expense of \$446 thousand as of the end of fiscal year 2006 and now was the time to use it. Due to funding issues at the state level, the state is expected to continue passing this under funding to CMHSP's via reductions in CMHSP fund balances to cover deficits.
- Funds restricted for capital purposes increased by \$28 thousand related to the depreciation taken on capital assets for the year. At Fiscal Year end this fund balance is \$81 thousand.
- Funds restricted for risk management purposes, as permitted in the MDCH/CMHSP Managed Mental Health Supports and Services Contract, decreased by \$18 thousand, leaving the balance in the fund at \$0. It is not expected that this fund will be replenished in the foreseeable future due to the

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
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- expected continued deficit in State General Fund expenditures verses revenue received from the MDCH.
- Unspent Adult Waiver Benefit capitation and MI Child capitation in the amounts of \$86 thousand and \$3 thousand, respectively, are available as local funding in futures years.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when “earned” and expenses recorded when “incurred”, without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changes during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

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Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

SUMMARY OF NET ASSETS

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2007 and 2006.

Summary of Net Assets

For the years ended September 30, 2007 and 2006
(In \$000s)

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
<u>Assets</u>				
Current assets	\$ 2,481	\$ 2,118	\$ 363	17.1%
Restricted assets	229	248	(19)	-7.6%
Capital assets	85	125	(40)	-32.0%
Total assets	<u>2,795</u>	<u>2,491</u>	<u>304</u>	<u>12.2%</u>
<u>Liabilities</u>				
Current Liabilities	1,277	621	656	105.6%
Noncurrent Liabilities	148	177	(29)	-16.4%
Total liabilities	<u>1,425</u>	<u>798</u>	<u>627</u>	<u>78.6%</u>
Net Assets				
Investments in capital assets	85	125	(40)	-32.0%
Restricted for capital purposes	81	53	28	52.8%
Restricted for risk management	0	18	(18)	-100.0%
Unrestricted	1,203	1,497	(294)	-19.6%
Total net assets	<u>1,369</u>	<u>1,693</u>	<u>(324)</u>	<u>-19.1%</u>
Total liabilities and net assets	<u>\$ 2,794</u>	<u>\$ 2,491</u>	<u>\$ 303</u>	<u>12.2%</u>
Current Position	<u>\$ 1,204</u>	<u>\$ 1,497</u>	<u>\$ (293)</u>	<u>-19.6%</u>

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Management's Discussion and Analysis
For the year ended September 30, 2007

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$1,204 thousand, a decrease of \$293 thousand or 19.6% compared to the prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

Restricted assets consist of cash and investments. These assets are restricted for capital purposes (funded depreciation) and compensated absences. Please note that at the end of fiscal year 2007 the risk management funds were fully abated. Restricted assets of \$229 thousand have decreased by \$19 thousand or 7.6% from fiscal year 2006. The decrease represents the abatement of the risk management fund.

Included in this category are assets restricted for capital purposes (funded depreciation). These are enabled by the Michigan Mental Health Code and are intended to preserve a source of funds for capital asset acquisition and liquidation of capital related debt. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal 2007, the Authority fully funded its annual depreciation expense of \$28 thousand, bringing the total balance through the end of fiscal year 2007 to \$81 thousand. Whereas GASB 34 recognizes \$42 thousand for depreciation in the current year, the Authority is only recognizing the amount chargeable to MDCH funds for the current year, which is \$28 thousand.

Also included are assets restricted to meet the obligation of earned but not utilized compensated absences of employees through the end of the fiscal year. This amount has decreased by \$29 thousand, from \$177 thousand in fiscal year 2006 to \$148 thousand in fiscal year 2007.

Due to insufficient State General Funds (formula funds) received in fiscal year 2007, the balance of \$18 thousand restricted for risk management at the end of fiscal year 2006 was completely abated, resulting in no restricted funds for this purpose in the current year.

Capital assets consist of property and equipment having an estimated useful life of more than one year and original cost in excess of \$5 thousand. These were previously reported in the general fixed asset account group. Under the provision of GASB 34, these assets are now included on the statement of net assets at their original book value, restated to be

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2007

net of the accumulated depreciation that would have otherwise been reported in prior years. Capital assets in the amount of \$2 thousand were acquired in fiscal year 2007. The net value of capital assets has decreased by \$40 thousand due to increases in accumulated depreciation and the disposal of equipment during the year, resulting in a net value of \$85 thousand.

As of year-end, the net book value of capital assets was 10% of the original book value compared to 13% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

Noncurrent liabilities consist of the liability for compensated absences that includes vested vacation and sick pay obligation.

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation). These were discussed above.

Unrestricted net assets at the end of the year were \$1,203 thousand, a decrease of \$294 thousand, or 19.6% for the year. Unrestricted net assets were 43% of total assets, down from 60% from the prior year.

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the year ended September 31, 2007 and 2006.

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2007

Summary of Activities

For the years ended September 30, 2007 and 2006
(In \$000s)

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
<u>Revenue</u>				
Medicaid specialty supports and services	\$ 5,512	\$ 5,138	\$ 374	7.3%
State general fund priority populations	1,424	1,410	14	1.0%
Adult Basic Waiver supports and services	144	227	(83)	-36.6%
MI Child	8	11	(3)	-27.3%
Program service revenue	29	39	(10)	-25.6%
Grants and earned contracts	69	69	0	0.0%
County appropriation	188	188	0	0.0%
Interest income	100	87	13	14.9%
Other local income	2	2	0	0.0%
Total revenue	<u>7,476</u>	<u>7,171</u>	<u>305</u>	<u>4.3%</u>
<u>Expense</u>				
Personal expense	3,168	2,868	300	10.5%
Operating expense	4,523	4,027	496	12.3%
Local funds contributed to State	95	95	0	0.0%
Depreciation	42	69	(27)	-39.1%
Total expense	<u>7,828</u>	<u>7,059</u>	<u>769</u>	<u>10.9%</u>
Excess of revenue over (under) expense	(352)	112	(464)	-414.3%
Transfer from(to) compensated absences	28	(31)	59	190.3%
Transfer from(to) Affiliate and MDCH	-	-	-	-
Prior period adjustment	(1)	7	(8)	-114.3%
Change in net assets	<u>\$ (325)</u>	<u>\$ 88</u>	<u>\$ (413)</u>	<u>469.3%</u>

Excess of revenue over (under) expenses from activities for the current year was a deficit of \$325 thousand or 4.7% of revenue. This is a decrease of \$464 thousand from the prior year surplus of \$112 thousand or 1.6% of prior year revenue.

Revenue for the year was \$7.476 million, an increase of \$305 thousand or 4.3% from the prior year.

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2007

Medicaid specialty supports and services revenue of \$5.5 million represents 74% of total revenue, an increase of 2% from 72% of total revenue in the prior year. It further represents an increase of \$344 thousand over the previous year. As began in fiscal year 2003, the source of Medicaid specialty supports and service revenues transferred from MDCH to a subcontract with the PIHP. This subcontract is on a net cost not to exceed basis. Excess Medicaid subcontract funds received during the fiscal year and due to the PIHP of \$649 thousand are not included as revenue but are shown as amounts due the PIHP as discussed above.

State General Fund priority population revenue (formula funding) of \$1.4 million represents 19 % of total revenue and increased \$14 thousand or 1% compared to the prior year. It remains the same % of total revenue as the previous year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Current year revenue includes \$70 thousand of prior year deferred revenue. Unspent current year funds of \$54 represents unspent categorical funds which are not included in current revenue. Unlike previous years, there were no funds available for carry forward from fiscal year 2007 to fiscal year 2008, which would have been reflected as deferred revenue available for next year. The deficit of \$268 thousand in State General Funds was covered by accumulated unused Adult Basic Waiver revenue from previous years as described in the next paragraph.

Adult Basic Waiver revenue (capitation funding) of \$144 thousand represents 2% of total revenue. Beginning on October 1, 2003 the Michigan Department of Community Health initiated a new program to replace the State Medical Program with the Adult Benefits Waiver, authorized under Title XXI of the Social Security Act. The Authority received capitation at the rate of \$53.77 per month for each Montcalm County resident enrolled in the program. Any unused funds at the end of the fiscal year are available in the subsequent fiscal years and treated as local funds from that point on. During fiscal year 2007 \$231 thousand of these funds were received, but only \$144 thousand expensed, leaving \$87 thousand as deferred revenue available for local funding uses in subsequent years. As of the end of fiscal year 2006 there were \$446 thousand in accumulated unused Adult Basic Waiver funds. Fiscal year 2007 was the first year in which accumulated unused Adult Basic Waiver funds from previous fiscal years were utilized. The amount of \$273 thousand was used from these funds to fund the shortfall in State general fund priority indicated above (\$268 thousand) and local matching funds (\$5 thousand).

MI Child revenue (capitation funding) of \$8 thousand represents a small amount of total revenue. The Michigan Department of Community Health has a program to provide medical insurance to uninsured children with family incomes below a certain level. The Authority received capitation at the rate of \$3.36 per month per each Montcalm County resident enrolled in the program. This represents the Federal share of the capitation at 69.47%, with the Authority required to match the State share of the capitation from its State General Fund priority population revenue at 30.53% of the costs of the program.

Montcalm Center for Behavioral Health
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For the year ended September 30, 2007

Any unused funds at the end of the fiscal year are available in the subsequent fiscal years and treated as local funds from that point on. During fiscal year 2007 \$11 thousand of these funds were received, but only \$8 thousand expensed, leaving \$3 thousand as deferred revenue available for local funding uses in subsequent years. This is the first year in which total costs of services to the MI Child population did not receive the amount of capitation. The amount of \$3 thousand is deferred and carries forward for use in subsequent years.

Program service revenue of \$29 thousand consist of charges for services provided to consumers not covered by Medicaid specialty supports and services revenue, State general fund priority population revenue, Adult Basic Waiver revenue or MI Child revenue. This amount represents fees collected from consumers, Medicare and private insurance on a cash basis. These funds are eligible to be used as local match funding for State General funds under Public Act 423. Consumers are subject to an assessed monthly ability to pay for services received based upon income. These represent less than 1% of total revenue and have decreased \$10 thousand or 26% from the prior year. The reduction is due to a decrease in the amount of services provided that are covered by insurance and in collections of consumer ability to pay amounts.

Grants and earned contract revenue includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 1% of total revenue and has remained the same as the prior year.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 4% of revenue and have increased \$13 thousand or 5% from the prior year. The county appropriation was unchanged from the previous year. The entire increase was due to the rise in interest rates during fiscal year 2007.

Total expense of \$7.828 million has increased \$769 thousand or 11% compared to the prior year. Personnel expense is 40% of total expense and has increased \$300 thousand or 10% from the previous year. Wages increased \$187 thousand and fringes by \$113 thousand. Operating expense is 58% of total expense and has increased \$496 thousand or 12% from the previous year. Community hospitalization costs increased by \$412 thousand and state facility costs increased by \$130 thousand.

FUTURE OUTLOOK

The state of Michigan is struggling to balance huge budget deficits. 95% of total revenues in fiscal year 2007 were received from state of Michigan funding sources. As has been seen in the current fiscal year, state resources were insufficient to cover the cost of providing services to residents of Montcalm County. Sufficient Medicaid specialty supports and services revenue is available for covered services, but funds available for state general fund priority population services are shrinking at an alarming rate.

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2007

Management has taken steps to limit its financial exposure for state general fund priority population services. Waiting lists will begin to be kept for those services that cannot be provided with the present level of funding, but with priority going to those services required to be provided under the Michigan Mental Health Code. Since no carryforward funds were generated in fiscal year 2007 (\$70 were generated in fiscal year 2006), less funding will be available in fiscal year 2008 for general fund priority population services relative to fiscal year 2007 funding.

The financial position, although currently healthy, was reduced by \$325 thousand in fiscal year 2007 and is expected to suffer a reduction in fiscal year 2008, although hopefully smaller than fiscal year 2007. Support and service demand, together with inflationary cost pressures is expected to place further strain on our ability to serve and support the residents of our community.

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

GOVERNMENT-WIDE FINANCIAL STATEMENTS



MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007 AND 2006

	Governmental Activities	
	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$2,344,447	\$2,003,282
Accounts receivable, net	5,310	5,309
Due from other governmental units	25,406	13,136
Prepaid expenses	105,337	96,545
Total current assets	<u>2,480,500</u>	<u>2,118,272</u>
Noncurrent assets		
Cash and cash equivalents - restricted	229,038	247,727
Capital assets - depreciable, net	85,489	125,013
Total noncurrent assets	<u>314,526</u>	<u>372,740</u>
Total assets	<u>2,795,026</u>	<u>2,491,012</u>
Liabilities		
Current liabilities		
Accounts payable	344,321	350,510
Accrued wages and other payroll liabilities	112,437	95,254
Due to other governmental units	714,869	105,245
Deferred revenue	105,604	69,703
Noncurrent liabilities		
Compensated absences	148,436	177,095
Total liabilities	<u>1,425,667</u>	<u>797,807</u>
Net Assets		
Invested in capital assets, net of related debt	85,489	125,013
Restricted for risk management	-	17,937
Unrestricted	1,283,871	1,550,255
Total net assets	<u><u>\$1,369,359</u></u>	<u><u>\$1,693,205</u></u>

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007, WITH COMPARATIVE DATA

	Program Revenues			Net (Expense) Revenue and Changes In Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	2007	2006
Functions					
Governmental activities					
Health & Welfare - Mental Health	<u>\$7,705,181</u>	<u>\$5,541,226</u>	<u>\$1,834,997</u>	(\$328,958)	\$88,387
General revenues					
Unrestricted investment earnings				100,433	87,769
Restricted investment earnings				-	5,295
Gain/(loss) on disposal of fixed assets				<u>(1,684)</u>	<u>1,521</u>
Total general revenues and contributions				98,749	94,585
Transfers to affiliates and MDCH				<u>(94,936)</u>	<u>(94,937)</u>
Change in net assets				(325,145)	88,035
Net assets - beginning of year				1,693,205	1,597,513
Prior period adjustment				<u>1,299</u>	<u>7,657</u>
Net assets - end of year				<u>\$1,369,359</u>	<u>\$1,693,205</u>

FUND FINANCIAL STATEMENTS



MONTCALM CENTER FOR BEHAVIORAL HEALTH
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007 AND 2006

	General Fund	
	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$2,344,447	\$2,003,282
Accounts receivable, net	5,310	5,309
Due from other governmental units	25,406	13,136
Prepaid expenses	105,337	96,545
Cash and cash equivalents - restricted	229,038	229,790
Total assets	<u>\$2,709,537</u>	<u>\$2,348,062</u>
Liabilities		
Accounts payable	\$344,321	\$350,510
Accrued wages and other payroll liabilities	112,437	95,254
Due to other governmental units	714,869	105,245
Deferred revenue	105,604	69,703
Total liabilities	<u>1,277,231</u>	<u>620,712</u>
Fund balance		
Designated for capital purposes	80,601	52,695
Reserved for prepaid expenses	105,337	96,545
Unreserved	1,246,369	1,578,110
Total fund balances	<u>1,432,307</u>	<u>1,727,350</u>
Total liabilities and fund balances	<u>\$2,709,537</u>	<u>\$2,348,062</u>

MONTCALM CENTER FOR BEHAVIORAL HEALTH
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Total fund balance - governmental funds	\$1,432,307
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital assets	873,061
Deduct: Accumulated depreciation	(787,572)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Compensated absences	<u>(148,436)</u>
Net assets of governmental activities	<u><u>\$1,369,359</u></u>

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	General Fund	
	2007	2006
Revenues		
State grants		
State general fund - DCH contract	\$1,424,176	\$1,409,977
Adult benefit waiver	144,282	227,071
MI child	8,112	11,313
MDCH grants	-	12,303
Title XX	1,845	1,845
Total state grants	1,578,415	1,662,509
Federal grants		
PAS / ARR grant	18,763	12,856
Contributions - local units		
Local funding	188,053	188,053
Charges for services		
Medicaid - affiliate contract	5,512,094	5,137,649
Client and third party pay	29,132	39,013
Total charges for services	5,541,226	5,176,662
Interest and rents		
Interest	100,433	87,769
Other revenue		
Miscellaneous	49,766	43,475
Total revenues	7,476,656	7,171,324

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	General Fund	
	2007	2006
Expenditures		
Health & Welfare - Mental Health		
Personnel expenditures	\$3,167,936	\$2,868,160
Operating expenditures	4,523,543	4,027,010
Capital outlay	2,199	65,459
Total expenditures	<u>7,693,677</u>	<u>6,960,629</u>
Excess of revenues over (under) expenditures	(217,021)	210,695
Other financing sources (uses)		
Operating transfers in (out) - affiliates	(94,936)	(94,937)
Operating transfers in (out) - internal services fund	<u>17,938</u>	<u>109,040</u>
Excess of revenues and other sources over (under) expenditures and other uses	(294,019)	224,798
Fund balance, beginning of year	1,727,350	1,494,895
Prior period adjustment	<u>(1,024)</u>	<u>7,657</u>
Fund balance, end of year	<u><u>\$1,432,307</u></u>	<u><u>\$1,727,350</u></u>

MONTCALM CENTER FOR BEHAVIORAL HEALTH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Net change in fund balances - total governmental funds	(\$294,019)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add: Capital outlay	2,199
Deduct: Depreciation expense	(42,362)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Deduct: Transfers in from the governmental internal service fund	(17,938)
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Some revenues and expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues and expenditures in the funds.

Add: Decrease in accrual for compensated absences	28,659
Deduct: Loss on disposal of fixed assets	(1,684)

Change in net assets of governmental activities	<u><u>(\$325,145)</u></u>
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MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2007 AND 2006

	Internal Service Fund	
	2007	2006
Assets		
Cash and cash equivalents	\$ -	\$17,938
Net assets		
Restricted for risk management	\$ -	\$17,938
Total liabilities and net assets	\$ -	\$17,938

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	Internal Service Fund	
	2007	2006
Non-operating revenue		
Interest income	\$ -	\$5,295
Operating transfers		
Operating transfers in (out) - general fund	(17,938)	(109,040)
Net income	(17,938)	(103,745)
Net assets, beginning of year	17,938	121,683
Net assets, end of year	<u>\$ -</u>	<u>\$17,938</u>

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	Internal Service Fund	
	2007	2006
Cash flow from operating activities	-	-
Cash flows from financial activities		
Operating transfers in (out) - general fund	(\$17,938)	(\$109,040)
Cash flows from investing activities		
Proceeds from interest earnings	-	5,295
Net increase (decrease) in cash and cash equivalents	-	(103,745)
Cash and cash equivalents, beginning of year	17,938	121,682
Cash and cash equivalents, end of year	\$ -	\$17,938
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	N/A	N/A

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Montcalm Center for Behavioral Health (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates under the provisions of Act 258 - Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the Montcalm County who meet eligibility and other criteria.

As the community mental health services provider for Montcalm County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority.

Based on the application of the criteria, the Authority does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Montcalm Center for Behavioral Health
Notes to the Financial Statements

Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund account is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Receivables and Payables between Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Bay-Arenac CMH Authority and the State of Michigan.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Authority as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have any infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight-line method (half year convention) over the following estimated useful lives:

Assets	Years
Vehicles	5
Equipment & Furniture	5
Computers	5
Building Improvements	2 - 11
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability as well as future improvements and/or acquisition of major capital assets. Cash and Investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the contracts with DCH.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Net Assets and Fund Balances

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Fund Balances - Reserves and Designations

Fund balances in the governmental funds financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental fund financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

MDCH Revenue

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Montcalm County.

Medicaid Revenue

Also, the Authority contracts to receive Medicaid revenue through Access Alliance of Michigan for Medicaid-qualified services rendered to residents of Montcalm County. Access Alliance of Michigan serves as the Pre-Paid Inpatient Health Plan (PIHP) for Montcalm County and they contract with the MDCH to administer these Medicaid funds.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the current year the Authority incurred expenditures in excess of the amounts budgeted, as shown on the budgetary comparison schedules in the back of this report as unfavorable variances.

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and cash equivalents was as follows:

	2007	2006
Petty cash	\$500	\$500
Checking, money market, and savings accounts	856,446	768,505
Certificates of deposit	1,487,501	1,234,277
Certificates of deposit - restricted	229,038	247,727
Total	\$2,573,485	\$2,251,009

Restricted Cash

The Authority holds, in a separate bank account, funds restricted to payment of compensated absences as they come due. Cash has also been restricted for future improvements and/or acquisition of major capital assets. Cash and cash equivalents in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the MCSSP contract. The restricted cash shown above represents cash and cash equivalents restricted for the following:

	2007	2006
Compensated Absences	\$148,437	\$177,095
Risk Reserve – Internal Service Fund	-	17,937
Capital Purchases	80,601	52,695
Total	\$229,038	\$247,727

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial risk over deposits.

As of the end of the current fiscal year, \$2,358,772 of the Authority's \$2,758,772 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

State statutes authorize the Authority to invest surplus funds in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30th of this fiscal year, the Authority had no such investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy complies with the State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities. The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk - Investments

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Montcalm Center for Behavioral Health
Notes to the Financial Statements

Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others.

Due from Other Governmental Units

Due from other governmental units as of September 30th, consists of the following:

Due From	2007	2006
State of Michigan - OBRA	\$4,919	\$2,842
State of Michigan - Runaway Grant	3,747	999
State of Michigan – Drop In Grant	-	1,265
State of Michigan – DCH	5,814	-
Bay-Arenac CMH Authority	-	7,318
Other	10,926	712
Totals	\$25,406	\$13,136

Prepaid Expenses

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid Expense	2007	2006
Insurance	\$28,432	\$35,783
Pension	52,878	41,527
Dues	10,115	7,734
Other	13,912	11,501
Totals	\$105,337	\$96,545

Montcalm Center for Behavioral Health
Notes to the Financial Statements

Capital Assets

A summary of changes in capital assets is as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets:				
Vehicles	\$183,363	-	-	\$183,363
Equipment & Furniture	388,314	\$37		388,351
Computers	230,478	2,199	(\$62,858)	169,819
Building Improvements	131,528	-	-	131,528
Sub-totals	933,683	2,236	(62,858)	873,061
Accumulated Depreciation:				
Vehicles	(148,507)	(7,746)	-	(156,253)
Equipment & Furniture	(382,884)	(5,467)	-	(388,351)
Computers	(193,165)	(21,856)	63,460	(151,561)
Building Improvements	(84,114)	(7,293)	-	(91,407)
Sub-totals	(808,670)	(42,362)	63,460	(787,572)
Net Capital Assets	\$125,013	(\$40,126)	\$602	\$85,489

Depreciation expense in the amount of \$42,362 was charged to Health and Welfare – Mental Health Program.

The Authority has established a reserve for capital purposes, otherwise known in the Michigan Mental Health Code as funded depreciation. Amounts funded to this reserve are designated for the purchase, replacement, or improvement of capital assets or the retirement of debt related to such capital purposes. The reserve was subsequently fully funded with revenue received for depreciation expense. The balance of this reserve as of September 30, 2007 and 2006 was \$80,601 and \$52,695, respectively.

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

Montcalm Center for Behavioral Health
Notes to the Financial Statements

Due to Other Governmental Units

Due to other governmental units as of September 30th, consist of the following:

Due To	2007	2006
State of Michigan – Cost Settlement	\$54	\$1,777
Inpatient / Residential Facilities	65,970	\$103,468
Bay-Arenac Behavioral Health (AAM)	648,845	-
Totals	\$714,869	\$105,245

Deferred Revenue

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

Deferred Revenue	2007	2006
General Fund Carryforward	-	\$69,703
FY 2008 County Appropriation Received in Sept 2007	\$15,671	-
Greenville Area Community Foundation Suicide Grant	3,171	-
ABW Funds Received in Excess of Amount Earned	86,510	-
MI Child Funds Received in Excess of Amount Earned	263	-
Bay-Arenac Behavioral Health	(11)	-
Totals	\$105,604	\$69,703

Operating Leases

Montcalm Center for Behavioral Health has operating leases for the use of real property. Operating leases do not give rise to property rights.

Long-Term Debt

Compensated Absences

Authority policy allows employees to accumulate up to one year's allowance of vacation pay plus 40 hours and to carry this accumulation for an indefinite time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense either when vacations are actually taken, upon election to receive a cash payment equal to 50% of one year's vacation earned, or upon termination of employment.

Sick pay can be accumulated for up to 90 days and can be carried for an indefinite time into the future. Upon death or retirement or those employees who voluntarily terminate, unused sick leave balances will be reimbursed at the levels noted below at the employees' straight-time pay rate as of the last day worked. However, upon involuntarily termination of employment, all sick leave benefits are forfeited.

Less than 5 years of service - 0%

Greater than 5 years but less than 10 years of service - 50%

Greater than 10 years but less than 15 years of service - 75%

Greater than 15 years of service - 100%

The liability recorded for compensated absences includes amounts for the related retirement and FICA.

Reserves and Designations

A portion of net assets are restricted to be used for future improvements and/or acquisition of major capital assets.

In the fund level financial statements a portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

Montcalm Center for Behavioral Health
Notes to the Financial Statements

Prior Period Adjustments

Prior period adjustments shown in the statement of activities in this report represent the adjustment to fund balance due to the following:

Adjustments to Fund Balance	2007	2006
Other	(\$1,024)	\$7,657
Totals	(\$1,024)	\$7,657

Adjustments to Net Assets	2007	2006
Adjustment to fixed assets	\$2,323	-
Other	(1,024)	\$7,657
Totals	\$1,299	\$7,657

Transfers Between Funds

The Authority transferred \$17,938 from the Internal Service Fund to the General Fund during the fiscal year. The transfer is in accordance with the criteria established by the Michigan Department of Community Health to meet expected future risk corridor requirements of the managed care specialty supports and services program contracts.

NOTE 4. OTHER INFORMATION

Pension Plan

Plan Description

Effective as of September 30, 1998, Montcalm Center for Behavioral Health's Pension Plan (the "Plan") was adopted to provide retirement benefits for eligible employees. The County of Montcalm, on behalf of the Authority, initially adopted this defined benefit retirement plan and the provisions of this plan are designed to satisfy the requirements of Section 401(a) of the Internal Revenue Code of 1986, as amended. Each employee is eligible to be a member of this plan if they work 1000 hours or more in a calendar year. The plan provides for normal retirement at age 60 with 10 years of plan participation. Early retirement is available with a minimum age of 55 and minimum service of 25 years.

The normal retirement benefit is a monthly pension payable in an amount equal to 2% of monthly effective compensation multiplied by years of service not to exceed 25 years, plus 1% of monthly effective compensation multiplied by years of service greater than 25. The normal retirement benefit is based on the effective compensation during the highest 5 consecutive years in the 10 years immediately prior to retirement. If retirement begins with less than 5 years of service, the benefit is based on the effective compensation during all years of service.

Effective compensation for a plan year is the compensation for the January 1 to December 31 period. Overtime compensation, bonuses, commissions, and any other extraordinary remuneration are counted. Commissions are averaged over one year. Vesting occurs after 5 years of participation. Periodic contributions are made to the trustee of the plan (Macatawa Bank) to cover the pension obligation of the employees of the Authority.

Funding Policy

The amount of employer contributions is determined on a yearly basis. For the year ending December 30, 2006, employer contributions to this retirement plan were \$166,108 and employee contributions were \$78,922.

Additional information about this plan can be requested by writing to: Watkins, Ross & Company, 161 Ottawa Avenue, NW, Suite 505, Grand Rapids, Michigan, 49503-2769.

FICA Alternative / Money Purchase Plan

Plan Description

Effective June 1, 1999, the Authority adopted an alternative social security plan. Employee contributions consisting of 6.2% of wages were equally matched by the Authority. The provisions of the Plan were designed to satisfy the requirements of Section 401(a) of the Internal Revenue Code. Contributions were made to this Plan through October, 2003.

On October 28, 2003, the Authority held an employee referendum on the continuance of the alternative social security plan. By a vote of 28 to 12 the employees voted to return to the Social Security program. At the time of the next payroll, on November 7, 2003, contributions to the Plan ceased and were made instead to the Social Security Administration. All remaining funds in the Plan, which were 100% employee vested, were distributed on April 7, 2004 either as a taxable distribution of the funds or as a rolled over balance to other qualified plans.

Funding Policy

The employees contribute 6.2% of their wages which is deducted from their pay. The Authority matches this amount.

Compliance Audits

The Authority participates in various federal, state, and local grants for mental health and substance abuse programs. Amounts received or receivable from the granting agencies or third-party payers are subject to audit and adjustment by grantor agencies or fiscal intermediaries. Any disallowed claims, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of expenditures which may be disallowed by the grantor, or of excess reimbursements as determined by a fiscal intermediary, cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority manages its risk exposures and provides certain employee benefits through a combination of self-insurance, risk management pools and commercial insurance. Coverage provided by pools and commercial carriers has not changed significantly and there have been no claims paid in excess of insured limits in the past three years.

The Authority participates in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage. The Authority is also subject to additional risk associated with the Managed Care Specialty Supports and Services Contract.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment expenses, for each occurrence that is within the member's self-insured retention. If a covered loss exceeds the MMRMA's limits, all further payments for such loss are the sole obligation of the Authority.

The Authority's coverage limits include \$5,000,000 for liability, \$1,479,481 for buildings and personal property, and \$1,500,000 for vehicle damage.

Economic Dependency

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent over 95% of the Authority's total revenues.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE



MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2007

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual And Final Budget
	Original	Final	Actual	
REVENUES				
State grants				
State general fund - DCH contract	\$1,579,919	\$1,453,421	\$1,424,176	(\$29,245)
Adult benefit waiver	180,000	220,000	144,282	(75,718)
MI child capitation	12,000	11,500	8,112	(3,388)
MDCH grants	21,530	21,880	-	(21,880)
Title XX	-	-	1,845	1,845
Deferred revenue	-	(130,161)	-	130,161
Total state grants	1,793,449	1,576,640	1,578,415	1,775
Federal grants				
PAS / ARR grant	-	-	18,763	18,763
Total federal grants	-	-	18,763	18,763
Contributions - local units				
Local funding	239,898	284,898	188,053	(96,845)
Charges for services				
Medicaid - affiliate contract	5,665,690	5,983,922	5,512,094	(471,828)
Client and third party pay	60,000	36,000	29,132	(6,868)
Total charges for services	5,725,690	6,019,922	5,541,226	(478,696)
Interest and rents				
Interest	-	-	100,433	100,433
Other revenue				
Miscellaneous	51,904	53,504	49,766	(3,738)
Total revenues	7,810,941	7,934,964	7,476,656	(\$458,308)

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2007

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual And Final Budget
	Original	Final	Actual	
EXPENDITURES				
Health & Welfare - Mental Health				
Personnel expenditures	\$3,058,170	\$3,310,461	\$3,167,936	\$142,525
Operating expenditures	4,519,707	4,764,045	4,523,543	240,502
Capital outlay	20,054	42,209	2,199	40,010
Total expenditures	<u>7,597,931</u>	<u>8,116,715</u>	<u>7,693,677</u>	<u>423,038</u>
Excess of revenues over (under) expenditures	213,010	(181,751)	(217,021)	(35,270)
Other financing sources (uses)				
Operating transfers in (out) - affiliates	(94,937)	(94,937)	(94,936)	1
Operating transfers in (out) - internal services fund	-	-	17,938	17,938
Excess of revenues and other sources over (under) expenditures and other uses	118,073	(276,688)	(294,019)	(17,331)
Fund balance, beginning of year	1,727,350	1,727,350	1,727,350	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(1,024)</u>	<u>(1,024)</u>
Fund balance, end of year	<u>\$1,845,423</u>	<u>\$1,450,662</u>	<u>\$1,432,307</u>	<u>(\$18,355)</u>

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS



MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEARS ENDING SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Personnel expenditures		
Salaries and wages	\$2,379,973	\$2,192,499
Fringe benefits	783,085	669,997
Board per diem	<u>4,878</u>	<u>5,664</u>
 Total personnel expenditures	 <u><u>\$3,167,936</u></u>	 <u><u>\$2,868,160</u></u>

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF OPERATING EXPENDITURES
FOR THE YEARS ENDING SEPTEMBER 30, 2007 AND 2006

	2007	2006
Operating expenditures		
Accounting and auditing	\$15,787	\$15,157
Client transportation	65,510	64,959
Clinical services contracts	182,843	158,016
Community hospital inpatient	599,691	187,388
Consultants	52,780	43,293
Consumer compensation, conferences, travel	9,542	8,558
Contractual program expense	979,380	905,650
Dues	13,044	14,223
Equipment rental	103	1,031
Insurance and licenses	38,390	31,404
Janitorial supplies	8,883	5,431
Legal and consulting	37,119	43,413
MDCH state facilities - local	92,646	22,150
MDCH state facilities - state	462,986	402,934
Miscellaneous	5,127	13,739
Repairs and maintenance	32,479	41,597
Printing and publishing	2,639	-
Public relations and advertising	12,370	19,317
Purchased services	17,481	17,000
Recruitment	20,260	7,567
Rent	18,946	148,416
Rent payment - residential homes	74,504	73,733
Software licenses maintenance	21,749	19,593
Residential placement	1,406,440	1,416,740
Small equipment	23,103	15,424
Staff development	18,551	35,835
Conference and travel	57,078	40,135
Supplies, postage, other operating expenses	65,129	71,565
Supported employment - janitorial service	22,879	24,332
Telephone and communications	67,239	73,559
Temporary office help	1,334	3,455
CMC administration	47,388	54,874
Utilities	26,878	29,028
Vehicle expenses	23,265	17,494
	<u> </u>	<u> </u>
Total operating expenditures	<u>\$4,523,543</u>	<u>\$4,027,010</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Montcalm Center for Behavioral Health
Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Montcalm Center for Behavioral Health (the Authority) as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated March 18, 2008.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C." The signature is written in dark ink and is positioned above the printed name of the firm.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

March 18, 2008

Montcalm Center for Behavioral Health Schedule of Findings and Responses

Finding 2007-1

Finding considered a significant deficiency

Effective for the year ended September 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended September 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. The staff of the Authority does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



MANAGEMENT LETTER

Board of Directors
Montcalm Center for Behavioral Health
Stanton, Michigan

In planning and performing our audit of the financial statements for Montcalm Center for Behavioral Health for the fiscal year ended September 30, 2007, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated March 18, 2008, on the financial statements of Montcalm Center for Behavioral Health.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

March 18, 2008

STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS

We were pleased to see that management has implemented some of the recommendations we included in our previously issued management letter. We commend you on your efforts to strengthen internal controls and operating efficiencies.

We have listed below the comments and related recommendations we included in our previously issued management letter in which the recommendations we suggested, or an appropriate alternative, have not been fully implemented as of the date of this report.

Depreciation Schedule

Prior Year Comment and Recommendation

During our review of capital assets we also found that the Authority does not have a computerized system in place specifically designed for capital asset recordkeeping and for calculating depreciation.

We recommend that the Board consider using a depreciation software package. Such software will assist in keeping the depreciation accurate and up-to-date because the software calculates the depreciation automatically, tracks additions or disposals, and calculates gains or losses on disposals.

Current Status

The recommendation we suggested in our previously issued management letter has not been implemented as of the date of this report.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

Montcalm Center for Behavioral Health
Management Letter

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages. The effective date for the Authority to implement this new standard is for the fiscal year ending September 2010. However, earlier application is encouraged by the GASB.